



RURAL ADVANCEMENT FOUNDATION INTERNATIONAL

Whole Farm Revenue Crop Insurance

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The Rural Advancement Foundation International (RAFI) *combines on-the-ground services with policy and market advocacy in order to ensure that farmers have the opportunity to make the right choices for their farm and families and that these are also the right choices for the environment and farming communities.*

Why is Whole Farm Revenue Crop Insurance Important?



- Crop Insurance is the primary government program for addressing production losses in disasters.
- Crop Insurance drives lending, and changes how an operating loan is collateralized.
- We are facing changing weather patterns, and more extreme weather.

Why is Whole Farm Revenue Crop Insurance Important?

- While Crop Insurance has a range of options for commodities like corn, soybeans or cotton, farms may have income from specialty markets that are not well served under existing programs.
- There also may be uninsured income from other on-farm enterprises.



Whole Farm Revenue

- Incentivizes diversification.
- Recognizes a proven farmer price.
- Allows insurance of previously uninsured products.
- Insures livestock income up to \$1M



Crop Insurance Basics

- Crop Insurance is a Public / Private partnership
- USDA
 - Defines the policies
 - Provides a subsidy of the premiums. For Whole Farm Revenue, this is as much as 80%
 - Pays companies directly for administration
 - Shares in catastrophic losses



Crop Insurance Basics



- Private Insurance Companies
 - Actually sell the insurance to the farmer
 - Must provide all policies available in that area
 - Must follow the guidelines in the policies.

Insurance Basics – 5 definitions in the policy

- What is being insured?
- How is the value before loss determined?
- What is an eligible loss?
- How will the value after loss be determined?
- What percentage of the difference will be paid (indemnity)?



General Multi-Peril Crop Insurance

- Insures a crop within a farm
- The value is determined by the farmer's Actual Production History (APH), which is then valued at current market prices, the Actual Revenue History (ARH), or an independent number like a county average.
- Losses are generally what is outside of a person's control. So if your land is flooded by a hurricane you are good, but if you screw up and break a hole in the dam of your irrigation pond and flood your land, that is on you.
- Losses are generally determined by an adjustor, who comes and inspects the field.
- Different policies have different coverage levels from catastrophic (55%) up to 80%.

Existing Livestock Policies

- Livestock Gross Margin for cattle, dairy or swine
 - Actual price – feed costs
- Livestock Risk Protection for Cattle, Lamb or Swine
 - Actual price – guaranteed price
- Based on futures prices contract settlement, Chicago Mercantile Exchange
- Limited states.

Whole Farm Revenue

- Insures the annual gross revenue from the whole farm operation.
- The value is determined by a 5-year average of the Schedule F filed in the person or farm's taxes. (For beginning farmers, that requirement is 3 years.)
- The loss is determined by the Schedule F from the insured year. Losses in one year will not be paid until taxes are filed the following Spring.
- The rate of coverage is up to 85% of the 5-year average income.

SCHEDULE F (Form 1040) Profit or Loss From Farming OMB No. 1545-0074
 Department of the Treasury Internal Revenue Service (99) Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B. **2014**
 Information about Schedule F and its separate instructions is at www.irs.gov/schedulef. Attachment Sequence No. 14
 Name of proprietor Social security number (SSN)

A Principal crop or activity **B** Enter code from Part IV **C** Accounting method: Cash Accrual **D** Employer ID number (EIN), (see instr)

E Did you "materially participate" in the operation of this business during 2014? If "No," see instructions for limit on passive losses Yes No
F Did you make any payments in 2014 that would require you to file Form(s) 1099 (see instructions)? Yes No
G If "Yes," did you or will you file required Forms 1099? Yes No

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method, Complete Parts II and III, and Part I, line 9.)

1a	Sales of livestock and other resale items (see instructions)	1a	
b	Cost or other basis of livestock or other items reported on line 1a	1b	
1c			
2	Sales of livestock, produce, grains, and other products you raised	2	
3a	Cooperative distributions (Form(s) 1099-PATR)	3a	
3b	Taxable amount	3b	
4a	Agricultural program payments (see instructions)	4a	
4b	Taxable amount	4b	
5a	Commodity Credit Corporation (CCC) loans reported under election	5a	
5b	CCC loans forfeited	5b	
5c	Taxable amount	5c	
6	Crop insurance proceeds and federal crop disaster payments (see instructions)		
a	Amount received in 2014	6a	
6b	Taxable amount	6b	
c	If election to defer to 2015 is attached, check here <input type="checkbox"/>	6d	Amount deferred from 2013
7	Custom hire (machine work) income	7	
8	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)	8	
9	Gross income. Add amounts in the right column (lines 1c, 2, 3b, 4b, 5a, 5c, 6b, 6d, 7, and 8). If you use the accrual method, enter the amount from Part III, line 50 (see instructions)	9	

Part III Farm Expenses—Cash and Accrual Method. Do not include personal or living expenses (see instructions).

10	Car and truck expenses (see instructions). Also attach Form 4562	10		23	Pension and profit-sharing plans	23	
11	Chemicals	11		24	Rent or lease (see instructions):		
12	Conservation expenses (see instructions)	12		a	Vehicles, machinery, equipment	24a	
13	Custom hire (machine work)	13		b	Other (land, animals, etc.)	24b	
14	Depreciation and section 179 expense (see instructions)	14		25	Repairs and maintenance	25	
15	Employee benefit programs other than on line 23	15		26	Seeds and plants	26	
16	Feed	16		27	Storage and warehousing	27	
17	Fertilizers and lime	17		28	Supplies	28	
18	Freight and trucking	18		29	Taxes	29	
19	Gasoline, fuel, and oil	19		30	Utilities	30	
20	Insurance (other than health)	20		31	Veterinary, breeding, and medicine	31	
21	Interest:			32	Other expenses (specify):		
a	Mortgage (paid to banks, etc.)	21a		a		32a	
b	Other	21b		b		32b	
22	Labor hired (less employment credits)	22		c		32c	
				d		32d	
				e		32e	
				f		32f	
33	Total expenses. Add lines 10 through 32f. If line 32f is negative, see instructions	33					
34	Net farm profit or (loss). Subtract line 33 from line 9	34					

35 Did you receive an applicable subsidy in 2014? (see instructions) Yes No
 36 Check the box that describes your investment in this activity and see instructions for where to report your loss.
 a All investment is at risk. b Some investment is not at risk.

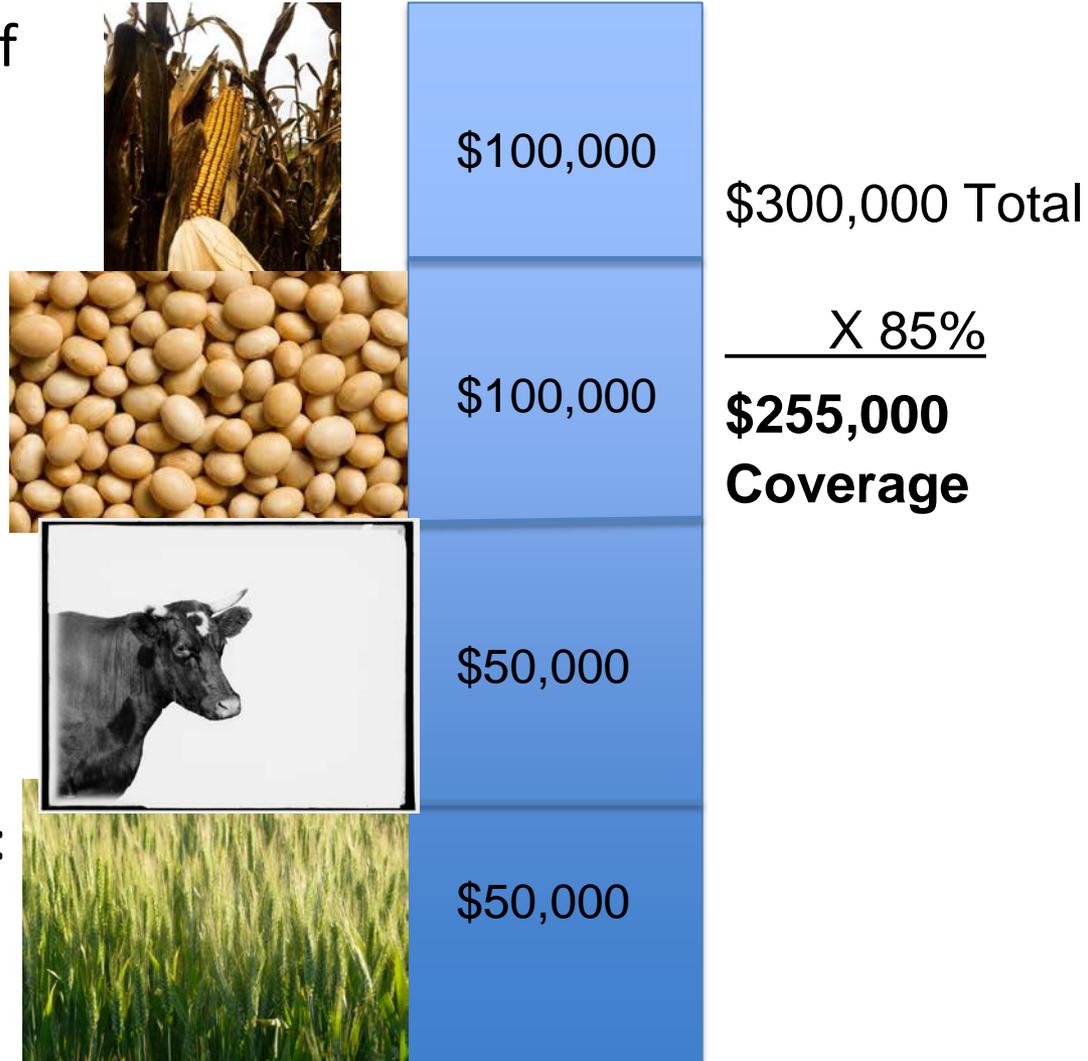
For Paperwork Reduction Act Notice, see the separate instructions. Cat. No. 11346H Schedule F (Form 1040) 2014

Whole Farm or MPCCI?

- Whole Farm is great for diverse operations who have significant income from products valued at other than the wholesale price.
- It also covers crops that do not have specific crop insurance policies.
- When available, because of risk analysis, MPCCI, if available is generally more cost effective.
- MPCCI can be “nested” in WFR, with WFR insuring the rest of the production.
- So if a farmer produces a range of products, but has significant income from an alternative market or enterprise, they can get MPCCI for their corn or soybeans, and cover the rest of their income with WFR.

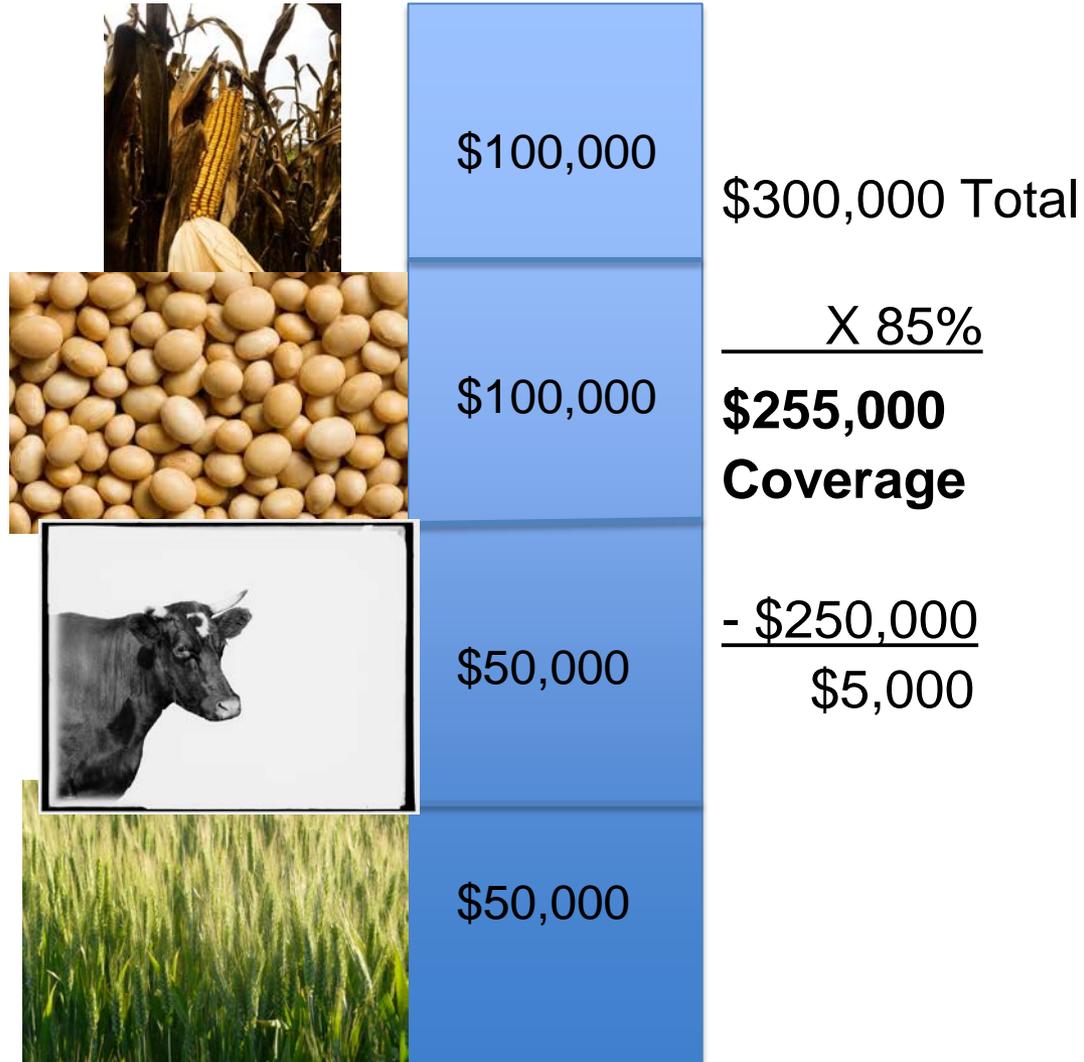
How WFR works

- Farmer Anna has a history of producing \$100,000 each from corn and soybeans, \$50,000 from direct market, grass-fed beef, and \$50,000 from specialty wheat for a local miller.
- Her average revenue is therefore \$300,000.
- With diversification, coverage is at the 85% level: 85% of \$300,000, or \$255,000.



How WFR works

- Losses on soybeans or corn are covered by the MPCl policy. Any payments from those policies count as income in the whole farm gross.
- If she loses half of the income on beef, and half on wheat, her remaining income is \$250,000, and indemnity is \$5,000.



How WFR works

- But in the same scenario, if she makes an extra \$20,000 each on corn and soybeans, then the income is above the loss threshold, and she does not receive a payment.



Main points

- The application process can be complicated, so do not wait until the last minute!
- Do your best to find an agent who is knowledgeable about the policy.
- It covers the minimal processing needed to bring a crop to market, like putting it into a box, but not processing that adds value.
- Understanding the growth factor is important. If you grow your operation past the coverage growth level, the revenue still counts against the total income, effectively reducing the coverage level.





THANK YOU.